Canadians can’t stop using their homes as piggy banks

By Erik Hertzberg

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Canadians are borrowing against their houses at the fastest pace in more than five years, as home equity lines of credit emerge as a preferred means of accessing funds.

Heloc balances jumped 7.2 per cent in December from a year earlier, the fastest annual growth since 2012, reaching a record $230 billion, the Office of the Superintendent of Financial Institutions reported Thursday. All other types of consumer debt such as personal loans, credit card balances, car loans and overdrafts climbed just 3.2 per cent over the same period, less than half the pace of heloc growth.

Borrowers can tap helocs for up to 65 per cent of the value of their homes, and the funds are most commonly used for making renovations, investing and consolidating debt, according to a June 2017 report by the Financial Consumer Agency of Canada. “Houses are becoming piggy banks,” said Paul Gulberg, a Bloomberg Intelligence analyst. It’s “either greed based or need based.”

Helocs can also be a red flag for policy makers.

It’s a type of borrowing that may contribute to increased household vulnerabilities because it typically doesn’t require the principal to be repaid on a fixed schedule, the Bank of Canada said in its most recent financial system review. About 40 per cent of heloc borrowers don’t regularly pay down the principal.

Of total loans secured to individuals for non-business purposes, those secured by residential property represent about 46 per cent, the OSFI data show.

Compared to other loan types, such as auto loans and credit cards, rates on helocs are typically cheaper, making them more attractive to consumers. They also tend to be more sensitive to fluctuations in borrowing costs, because they’re usually tied to prime rates.

“It’s a rising risk factor because it’s something that reprices more rapidly than a typical mortgage pool,” said Gulberg, adding the risk is rising “in conjunction with the fact that it’s fuelling overall consumer credit, which is considered to be an issue.”

Canadians have about 3 million heloc accounts and the average outstanding balance is $70,000, the FCAC said, which also warned heloc borrowers are increasingly vulnerable to rising interest rates and a housing market correction.